



New Tax Benefits for New Israeli Residents and Returning Residents

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1. Tax Reliefs and Benefits for New and Returning Residents arriving commencing January 2007

According to the festive tax changes, notwithstanding the general principals outlined above, a new Israeli immigrant or a returning resident may be entitled to substantial tax reliefs and benefits.

Applicability of the New Reliefs and Benefits

The new legislation defines three classes of residents which may be relevant to a newcomer and according to which his or her tax status is determined:

- A new Israeli Resident – an individual who became an Israeli resident for the first time;
- A veteran/senior returning resident – an individual who prior to his or hers arrival to Israel was considered a foreign tax resident for a period of at least 10 consecutive years. In honor of Israel's 60th anniversary, a temporary decree provided that in case one became an Israeli resident during the years 2007-2009, a shorter threshold period of 5 years is required (instead of the 10).
- An ordinary returning resident – an individual who prior to his or hers arrival to Israel was considered a foreign tax resident for a period of at least 6 consecutive years. Nonetheless, in case one left Israel prior to the end of 2009, a shorter threshold period of 3 years is required (instead of the 5).

The new reform provides that the tax status of a new Israeli resident and a veteran returning resident (and together hereinafter: a "**new resident**") is equal, and both are provided with the same tax reliefs and benefits.

2. The Tax Benefits

A new resident is entitled, *inter alia*, to the following substantial tax reliefs and benefits, which qualify the aforesaid basic rules of the Israeli tax base:

- **10 Year Tax Holiday** on Foreign Source income – new residents are exempt from tax in Israel with respect to foreign source income, for a period of 10 years commencing from the date of becoming such new residents (the "**Benefit Period**"). This exemption covers all income, active or passive, such as interest, dividends, pensions, royalties and rental of

assets, whether produced outside of Israel or derived there from, as well as gains from the sale of foreign assets (the "**Exempt Income**").

- **10 Year Reporting Relief** – during the said Benefits Period, new residents are exempt from any reporting responsibility in Israel with respect to the Exempt Income.
- **Extension of the 10 year Benefits Period** - An amendment enacted in July 2009 provides that the Minister of Finance may issue regulations that will extend the 10 year Benefits Period for new residents who make substantial investments in Israel that promote national goals. The moment that any such announcement is formally made we shall inform all our clients and contacts.
- **20 years Tax Exemption for Certain accrued Interest** – a new immigrant is eligible for a tax exemption with respect to interest accrued on foreign currency funds deposited in a bank account for a period of 20 years commencing from the date of becoming new immigrant.
- **'Acclimatization Year'** - during the first year of stay in Israel, a person who qualifies as a new resident may elect to be considered as non-Israeli tax resident, thus allowing oneself to explore the possibility of residing permanently in Israel, without immediately being regarded as an Israeli tax resident and subject accordingly to Israeli taxation. In case one elects to apply this status and thereafter stays in Israel permanently, the acclimation year will be counted as part of the 10 year Benefits Period, i.e. only 9 years of benefits will remain. On the other hand, if the person leaves Israel during the acclimation year, there will be no Israeli tax ramifications to his arrival nor to his leave (e.g., Israeli Exit Tax will not apply), as though he has never been an Israeli tax resident.
- **Foreign Entities** – As in many other jurisdictions, the Israeli tax law contains rules which are meant to grasp within the scope of taxation certain foreign entities that are related to Israeli residents. The new legislation deals with such rules and provides certain qualification with respect to new resident:
 - **Management and Control of Foreign Companies** – according to Israeli tax legislation, a company of which the management and control are handled from Israel, may be considered as an Israeli resident, and thus would the company be liable to tax in Israel with respect to its worldwide income.

Nonetheless, the tax legislation of 2007 provides that in case the 'management and control' is by a person qualifying as a new resident, during the said 10 year Benefits Period, the above rule shall not apply to them and their companies.

- **Controlled Foreign Corporation** - Israeli law also contains certain CFC provisions, according to which in certain cases, a foreign corporation controlled by an Israeli resident may be deemed to have distributed its mainly passive income to its Israeli shareholder. A qualifying Israeli shareholder might thus be subject to tax in Israel under the title of a "deemed dividend".

The 2007 legislation limits the effect of this rule since it has been provided that a new resident shall not be considered an Israeli resident for the purposes of this provision. In other words, the said CFC rule does not apply to new residents during the 10 year Benefit Period.

- **Foreign Vocational Corporations** – according to Israeli tax law, under certain circumstances, a foreign entity of which 75% of its controlling interests are held by Israeli residents and most of its income during a tax year is derived from certain activities provided by the company via the Israeli residents (e.g., management services, consultancy, accounting, legal and services), may be subject, to some extent, to tax in Israel.

The new legislation provides that during the 10 years Benefits Period, the holdings of new Israeli immigrants are not considered holdings by an Israeli resident; thus, *de facto*, such taxation does

not apply to entities controlled by new Israeli immigrants.

- **Trusts and Foundations** – According to Israeli tax law concerning the taxation of trusts and foundations, under certain circumstances, a trust or foundation may be considered an Israeli tax resident, if one of its settlors or beneficiaries is or becomes an Israeli resident. Nevertheless, the benefits apply also mutatis mutandis on such trusts and foundations, in a case that they would risk to be considered 'Israeli resident trusts' for tax purposes merely due to the fact that a settlor or a beneficiary have become 'new Israeli residents'.

Please note Israeli law provides tax benefits also to ordinary returning residents, such as a 10 year tax exemption with respect to certain foreign capital gains, a 5 year tax exemption with respect to certain foreign "passive" income, and so forth. These benefits are not further addressed in this review but similarly offer important benefits.

3. Tax Reliefs and Benefits for New and Returning Residents arriving from January 2007

The Israeli income tax authorities have indicated that new legislation is under preparation which will allow for tax benefits on the proceeds of investment, by qualifying returning residents and new immigrants, in certain Israeli domestic ventures and projects. This exemption would be provided for a period of 20 years commencing at the date of arrival of the individual and strives to encourage investment into certain industrial and high tech initiatives which are expected to increase employment and national product.

The exemption is expected to be wider than the one which was awarded to 'regular' foreign investors in qualifying projects in Israel as it exists today. The investment benefit for new immigrants aims for increase in industrial investment and also investment into other specifically to be determined investments in new ventures which are expected to increase employment and national GDP.

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